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Rural Hospitals' Contributions to Health Care and Local Economies

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California's small and rural hospitals play an important role in the delivery of health care to California residents. They provide primary and acute services to the state's 2.6 million rural residents and cover a service area that geographically includes approximately 75 percent of the state. Rural hospital emergency services are the key link to accessing the emergency medical system for both local residents and tourists. Some of these hospitals are located up to 200 miles from the nearest tertiary-care center.

Rural hospitals and other rural providers are vital to California's economy, with a payroll of almost $700 million in 2000. They are the chief source of health care to employees in the $17 billion agriculture, forestry, fishing and mining industries. Because the economic viability of many of these facilities has never looked bleaker, public and private policies and strategies must be developed to ensure their long-term survival.

This report is a composite of separate studies conducted by the Center for Economic Development at California State University, Chico, on California Critical Access Hospitals (CAH). Four certified CAHs were chosen for the study due to their small size (less than 15 beds), isolation factors and size of their communities. The studied market areas included Southern Inyo Hospital in Inyo County, Tehachapi Hospital in Kern County, John C. Fremont Hospital in Mariposa County, and Surprise Valley Hospital in Modoc County. These market areas included the surrounding communities for which the study hospital provided the closest services.

The CHA Rural Healthcare Center (RHC) examined the likely impact from the closure of these hospitals on the economies of their local communities. In each case, the consequences were found to be significant, with a strong negative impact on local employment and incomes. Estimated job losses due to hospital closures ranged from a low of 4 percent in John C. Fremont Hospital's area to a high of 20 percent in Surprise Valley Hospital's area.

Contributions to Local Health Care Needs

Access to health care can be defined as the availability of primary-care services, emergency medical services and basic hospitalization. California can be characterized as extremely diverse in terms of availability of health care between urban and rural regions.

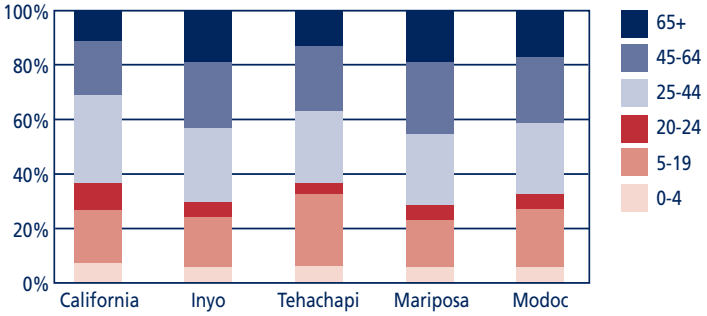
The ability to access health care can be important in terms of maintaining economic health in a community. For older people, health care can be an issue when choosing a community in which to live. Health care also means more jobs within the community. Health and educational services are often considered necessary for the development of business and industry. The quality of and access to health care can influence whether or not a business will locate in a particular community.

Age Composition of Rural Populations

Rural counties differ significantly from their urban counterparts in the composition of their populations. This is especially true for "age structure." Rural populations are significantly older than their urban counterparts, with more retirees and a lower percentage of the population in the working-age group. The presence of a disproportionate share of retirees has obvious implications regarding the need for health services, as this group is more subject to chronic illnesses creating a need for more hospitalization, professional services, nursing home care and prescription drugs.

As Figure 1 illustrates, the primary difference between age compositions is the larger percentage of rural populations in the 65 and older age category, and the corresponding lower percentage in the categories that account for the primary working-age population, comprised of those 18 to 64 years old.

Figure 1 — **Age Composition of Population**



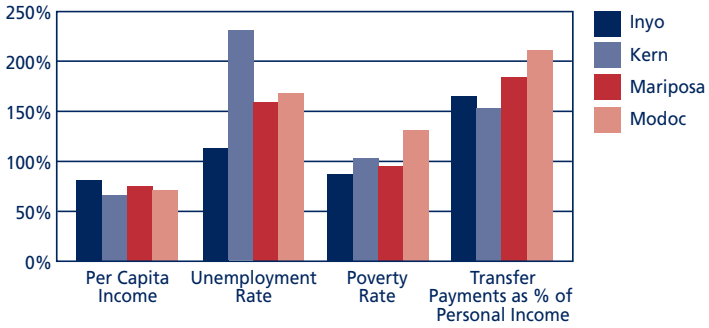
Observations include:

- The 65 and older population draws more heavily on health services because of the factors noted above.
- Because the 65 and older population is comprised principally of retirees (and some medically disabled), it is less able to provide for its own health needs, and is therefore more dependent on Medicare, Medi-Cal and family assistance.
- Those in the working-age population must therefore carry an increased burden in financing not only their own care, but also a significant portion of the needs of their retired family members.
- The availability of locally provided health services can ease this burden.

Income and Poverty Levels in Rural Populations

In general, rural populations are not only older than urban populations, but also poorer, with higher levels of unemployment and a greater reliance on transfer payments (unemployment benefits, social security, retirement income and disability payments) as a source of income (see Figure 2).

Figure 2 — **Selected Economic Indicators as % of Statewide Average**



Per-capita income is below the statewide average for all four of the profiled counties. Kern and Modoc counties are the lowest, with a level only about 70 percent of the statewide average. Unemployment rates also are higher than for the state as a whole, with Kern County in the worst condition with a level more than double that of the state average.

The poverty rate is actually slightly lower than the state average for Inyo and Mariposa counties, but higher for Modoc and Kern. The residents of these four counties are between 150 percent and 200-plus percent as dependent on transfer payments as the state average.

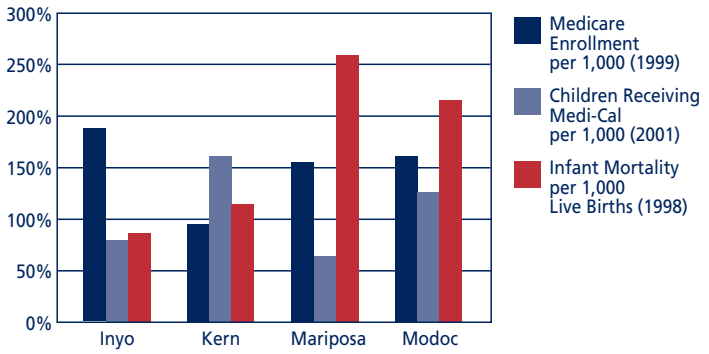
Observations include:

- High unemployment rates, coupled with a high reliance on transfer payments, create a situation in which sources of meaningful compensated employment become especially important.
- Low-income levels are associated with low health status and reduced mobility, which create a need for locally provided, primary health care services.

Health Status and Health Indicators

Figure 3 demonstrates the impact of the age and income structure of the profiled counties on three measures of access to health services. Because of the older populations, Medicare enrollment is higher than the state average in all but Kern County, with Inyo County the highest at almost double the state average. Despite lower income levels, the percentage of children receiving Medi-Cal assistance is lower than the state average, with the exception of Modoc and Kern counties. Infant mortality is higher in three of the counties. Please note that the infant mortality figures are for one year only and reflect low numbers, and therefore may be misleading.

Figure 3 — **Selected Health Indicators as % of Statewide Average**



Contributions to Local Economies

Impact on Incomes

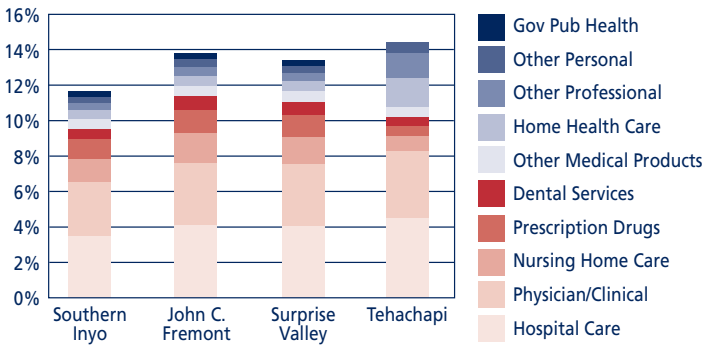
Rural hospitals, as part of a total health care delivery system, have the potential for contributing in a significant way to their local economies. Figure 4 presents a view of the potential contribution of the major components of health care expenditures as a percent of local (market area) personal incomes.

The potential value of each of the components was determined by adjusting the average per-capita expenditures (e.g., hospital care, $1,400 in 2000) by the estimated percent of this amount that could be provided by a local provider (in the case of hospital care, 61 percent), and finally, by multiplying this by the population of the hospital's market area (in the case of Surprise Valley Hospital, 1,300). Thus, the value for hospital care in Surprise Valley Hospital's market area is $1,116,258 for 2000.

Similar adjustments were made for each of the other components and for each hospital's market area. After adjustments, the potential contribution of health care expenditures to each hospital's market area were:

Southern Inyo Hospital — $11,178,920
John C. Fremont Hospital — $96,462,792
Surprise Valley Hospital — $3,700,044
Tehachapi Hospital — $119,283,048

Figure 4 — **Potential Health Expenditures as % of Estimated Market Area Personal Income**



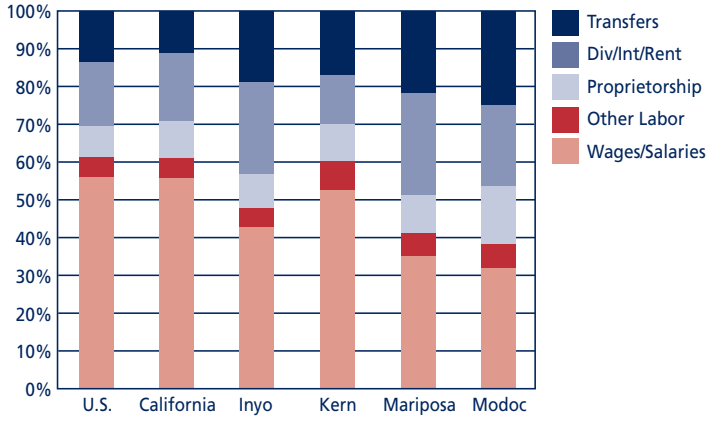
Observations include:

- The health care sector in rural areas can be a major contributor to the local economy, as measured by its impact on personal incomes. In the case of the four local market areas examined, this contribution varies from a low of about 12 percent in Southern Inyo to a high of more than 14 percent in Tehachapi. Viewed another way, local health care expenditures comprise potentially about $1 in $8 in personal income in rural areas.
- Hospital services are the largest single component, followed closely by physician/clinical care.
- These two components alone account for more than half the contributions in each of the market areas.

Impact on Employment, Wages and Salaries

As Figure 5 reveals, residents of rural areas derive relatively more of their incomes from transfer payments and relatively less from wages and salaries. The distribution of sources of income is relatively the same for the United States and California, but quite different for the rural counties studied. Modoc County is unusual in its high proportion of incomes generated from proprietorships (usually small, individually owned businesses).

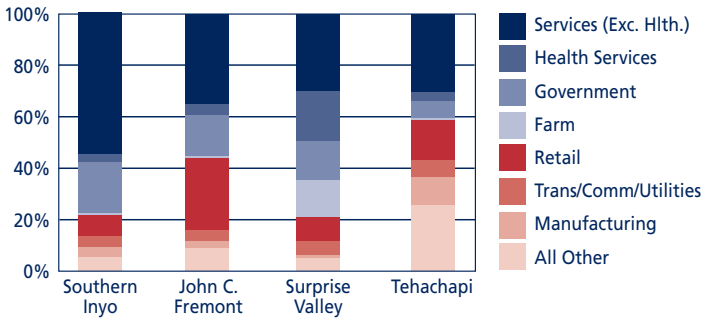
Figure 5 — **Sources of Person Income, 1999 (%) U.S., California and Four Counties**



Observations include:

- The importance of transfer payments (such as retirement benefits and disability payments) makes it essential to maintain or improve the level of these payments.
- Because wages and salaries comprise a smaller percent of incomes, it is important to protect and enhance sources of adequate-wage employment in rural areas. The negative impact of the loss of any source of wage and salary employment is especially damaging.

Figure 6 — **Employment by Sector**



To assume that rural areas are homogeneous in their sources of employment would be mistaken. Figure 6 reveals a significant variability in the sources of employment by sector between the four rural market areas. Services, including retail, comprise the largest sector, followed by government, except in the case of the Surprise Valley area where health services account for 20 percent of total employment. For the other three areas, health services comprise approximately 4 percent of total employment.

Figure 7 — **Wages and Salaries Impact of Hospitals**

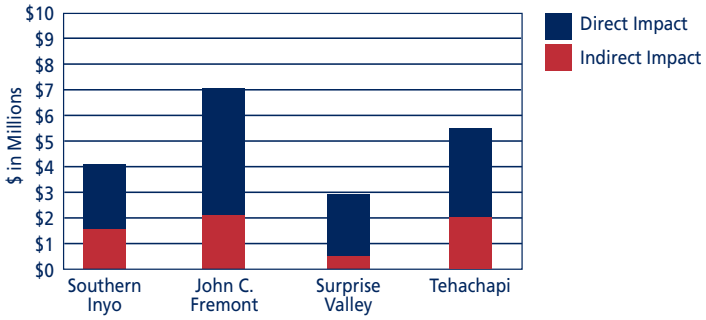


Figure 7 shows the estimated impact that each of these four rural hospitals has on the wages and salaries of their local economies. The direct impact is a measure of the wages and salaries paid directly by the hospital to its employees. The indirect impact is an estimate of the impact on wages and salaries of other area residents as a result of the hospital's purchasing activities and its employees' spending patterns.

Observations include:

- John C. Fremont Hospital has the most significant impact, with direct and indirect effects totaling about $7 million per year. Tehachapi follows this with more than $5 million, and Southern Inyo and Surprise Valley with about $4 million and $3 million, respectively.
- This measures only the impact on local wages and salaries of the hospitals' economic activities. However, in the event of closure of the hospitals, there also would be lost area jobs and incomes due to the loss of physicians, ambulance, pharmacy, outpatient, long-term and other hospital-based services.
- For these reasons, it is important that public policies ensuring the survival of these critical hospitals be maintained and strengthened.

Conclusion

Rural hospitals play a major role not only in the provision of health services to local populations, but also in their local economies. They serve a population that is older, poorer and more reliant on transfer payments than the California statewide average.

Despite their importance to the state's rural population, these hospitals are increasing in dire financial straits. More than 20 percent have closed or filed for bankruptcy during the last three years.

Public policy and private strategies combined with community involvement must be coordinated in order to ensure the survival of these important health care providers.

This report is based on analyses prepared by the Center for Economic Development, California State University, Chico.

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